

We aim to establish ourselves as the “unique chemical company with individualized products.”

First Half, 2007 Financial Results

- Consolidated -

SHOWA DENKO K.K.

August 8, 2007



This presentation contains statements relating to management’s projections of future profits and expectations for the Company’s product development program. The Company cannot guarantee that these expectations and projections will be realized or correct. Please note that actual results may differ materially from the forecast due to a variety of factors, including changes in the market conditions. The timely commercialization of products under development by the Company may be disrupted or delayed by a variety of factors, including market acceptance, and the introduction of new products by competitors. The foregoing list of factors is not inclusive.

Consolidated Companies

■ Consolidated subsidiaries: 40

■ Newly consolidated: 1

- Grand Ocean-Showa Auto Air Conditioning (Dalian) Co., Ltd.
(equity method → consolidated, Aluminum)

■ Excluded from the consolidation: 1

- Heisei Polymer Co., Ltd. (Sold, Petrochemicals)

■ Equity method applied: 22

■ Excluded :2

- Shinko Kasei Co., Ltd. (Sold, Petrochemicals)
- Grand Ocean-Showa Auto Air Conditioning (Dalian) Co., Ltd.
(equity method → consolidated, Aluminum)

Major Selected Data

	1 st Half 2006	1 st Half 2007	Increase
■ Exchange rate: ¥/US\$	115.7	120.2	Yen weakened by ¥4.4/\$
■ Domestic naphtha price: ¥/kl	47,400	53,300	+5,900
■ Aluminum LME price: US\$/T	2,563	2,773	+210

Summary

(Unit: Billions of Yen)

	1 st Half 2006	1 st Half 2007	Increase	
Net Sales	427.0	485.1	58.1	13.6%
Operating Income	33.8	35.0	1.2	3.5%
[Ratio to net sales]	7.9%	7.2%	-0.7 point	
Interest/Dividend income less interest expenses	-2.7	-3.1	-0.4	
Equity Method	0.9	1.4	0.5	
Other	-3.5	-6.2	-2.7	
Ordinary Income	28.5	27.1	-1.4	△5.0%
Extraordinary Profit	3.7	3.0	-0.8	
Extraordinary Loss	-6.4	-4.5	1.9	
Net Income before taxes	25.8	25.6	-0.3	
Corporate Taxes	-9.4	-9.4	-0.1	
Minority Interests	-1.4	-1.1	0.3	
Net Income	15.1	15.1	0.0	0.1%

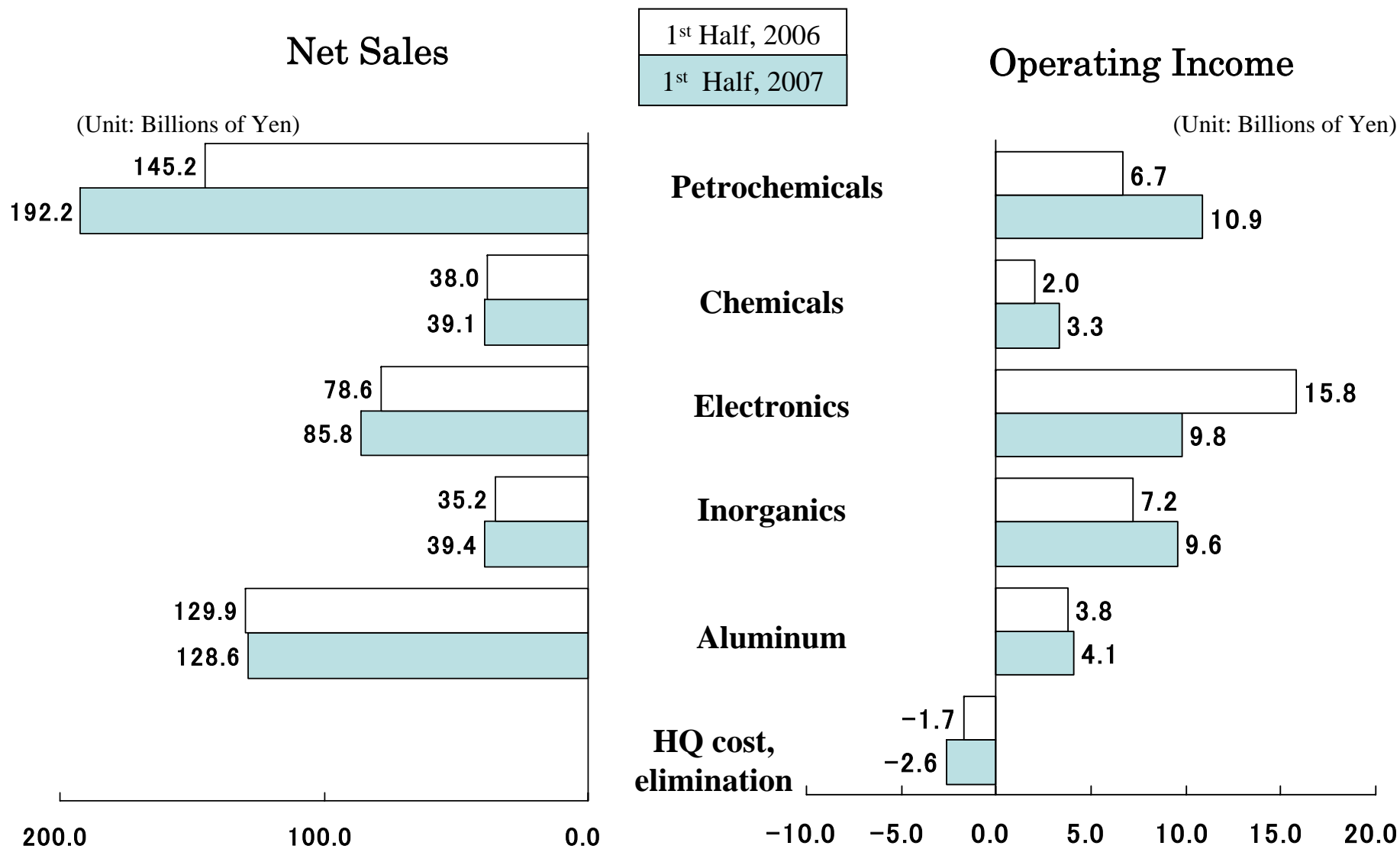
Extraordinary Profit/Loss

(Unit: Billions of Yen)

	1 st Half 2006	1 st Half 2007	Increase
■ Extraordinary Profit	3.7	3.0	-0.8
● Gain on the sale of investment securities	2.9	1.2	-1.7
	(note 1)		
● Gain on fixed assets sold	0.1	0.4	0.4
● Other	0.8	1.4	0.6
■ Extraordinary Loss	-6.4	-4.5	1.9
● Loss on fixed assets sold or retired	-3.6	-2.7	0.9
● Allowance for doubtful receivables	-0.9	-0.0	0.8
● Loss on impairment of fixed assets	-	-0.4	-0.4
● Other	-1.9	-1.4	0.5
■ Extraordinary Profit/Loss, Net	-2.7	-1.5	1.2

(note 1) Showa Aluminum Powder and others

Sales and Operating Income by Segment



Consolidated Sales by Segment

(Unit: Billions of Yen)

	1 st Half 2006	1 st Half 2007	Increase	Increase by Business
Petrochemicals	145.2	192.2	+47.0	Olefins: shipment volume increased*, price up Organic chemicals: price up, vinyl acetate monomer's shipment volume increased. Showa Highpolymer: sales increased by the accounting period change
Chemicals	38.0	39.1	+1.1	AN▪ <i>Shoprene</i> : price up Caustic soda▪Chlorine▪Hydrochloric acid: continued brisk demand Amino acids▪ <i>Elaslen</i> ▪ <i>Shodex</i> : shipment volume increased
Electronics	78.6	85.8	+7.2	HDs: volume increase thanks to new capacity expansion Specialty gases: volume slightly down due to weak shipment of cleaning agents. Rare earth: shipment volume increased, price up
Inorganics	35.2	39.4	+4.2	Ceramics: maintained at the year-earlier level Carbons: Sales increased. (graphite electrodes in tight supply in domestic and overseas markets)
Aluminum	129.9	128.6	-1.3	Ingots: sales increased (price up) Aluminum alloys :removed from consolidation <i>Shotic</i> : sales volume increased Sheets▪Extruded products: shipment volume increased Aluminum cans: sales increased. Heat exchangers: sales volume increased in Japan, North America and Europe
Total	427.0	485.1	+58.1	

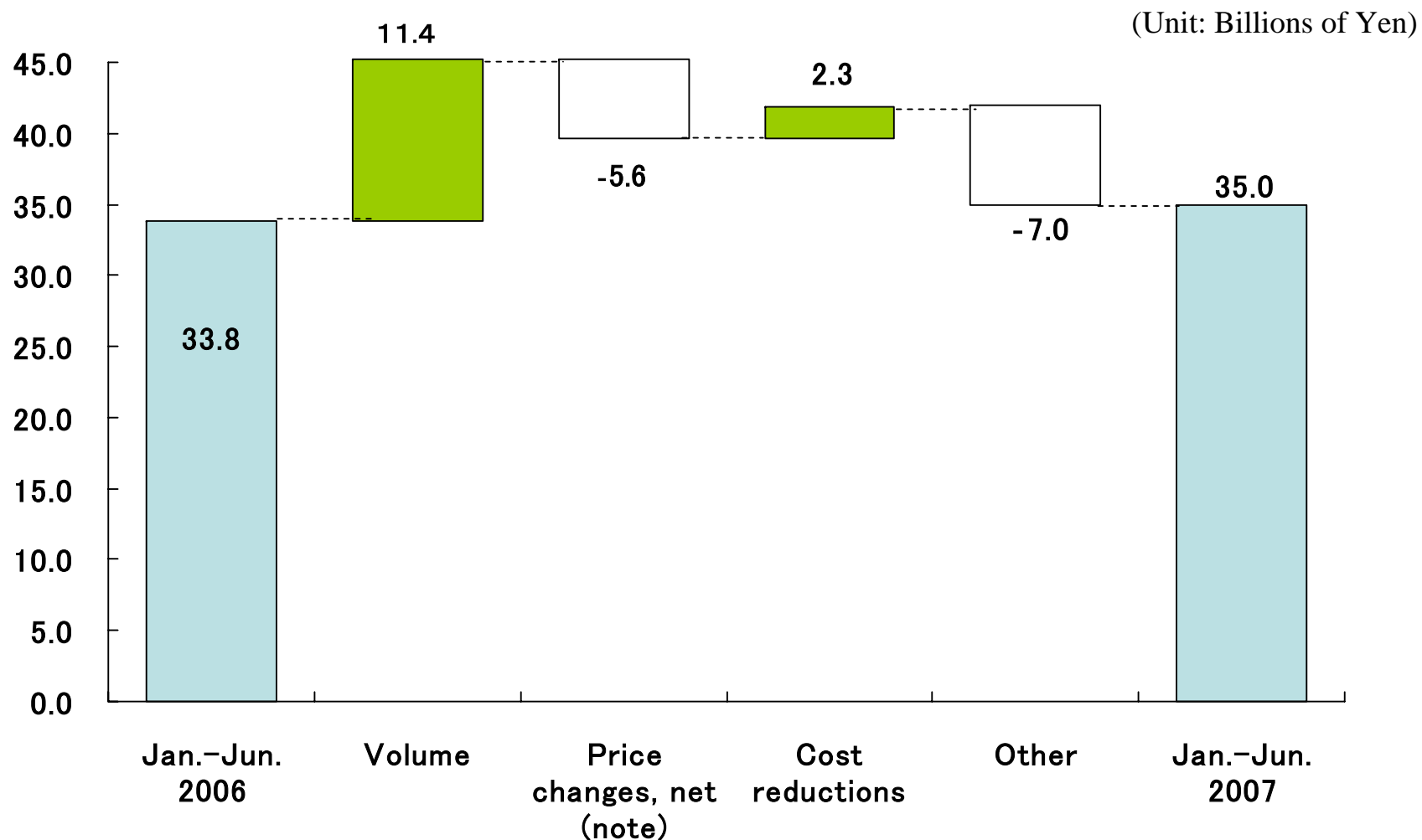
* Ethylene plant shutdown maintenance was conducted in the 1st half 2006.

Consolidated Operating Income by Segment

(Unit: Billions of Yen)

	1st Half 2006	1st Half 2007	Increase	Increase by business
Petrochemicals	6.7	10.9	+4.1	Olefins: shipment volume increased Organic: operating income down due to methanol price up.
Chemicals	2.0	3.3	+1.3	AN, <i>Shoprene</i> : price up
Electronics	15.8	9.8	-6.1	HDs: Target material cost up. Increased depreciation expenses due to the production capacity expansions. Higher costs due to the production shift to higher-capacity HD media. Compound semiconductors: product mix improved. Rare earth: maintained at the year-earlier level due to raw material cost up
Inorganics	7.2	9.6	+2.4	Ceramics: maintained at the year-earlier level. Graphite electrode: increased due to steady demand in North America.
Aluminum	3.8	4.1	+0.3	Aluminum ingot: cost up due to the rise in raw material costs. Aluminum alloys :removed from consolidation High purity foil for capacitors: shipment volume increased, price up Aluminum cans: shipment volume increased, price up Heat exchangers: profitability slightly improvement.
HQ costs, elimination	-1.7	-2.6	-0.9	R&D cost increased.
Total	33.8	35.0	+1.2	

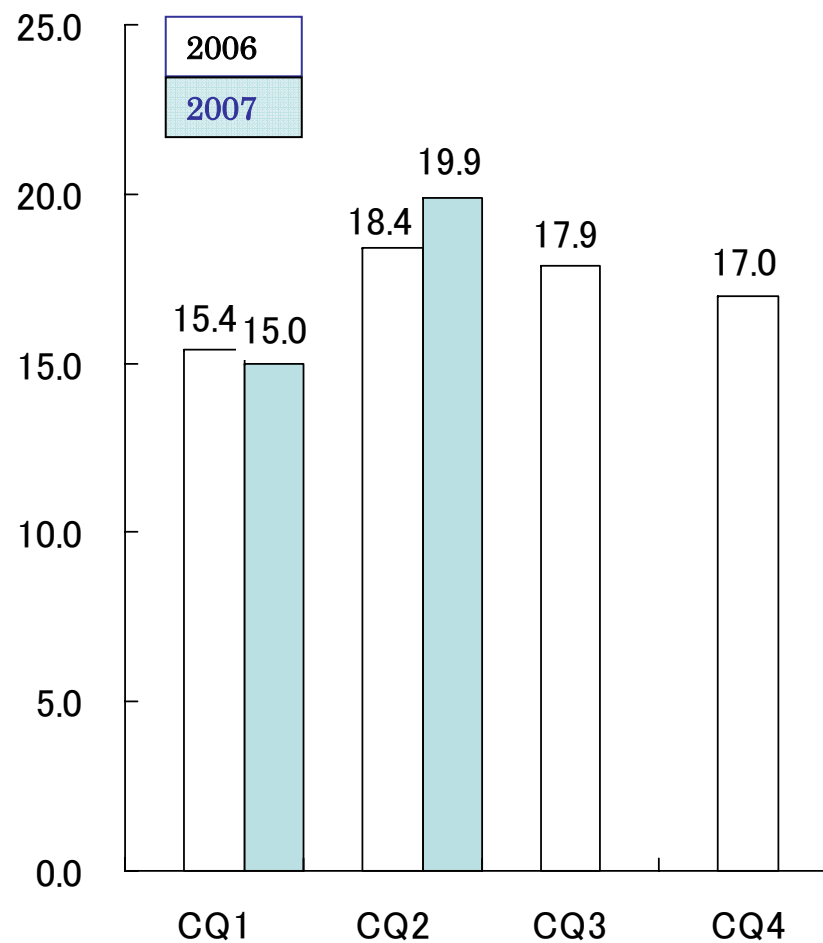
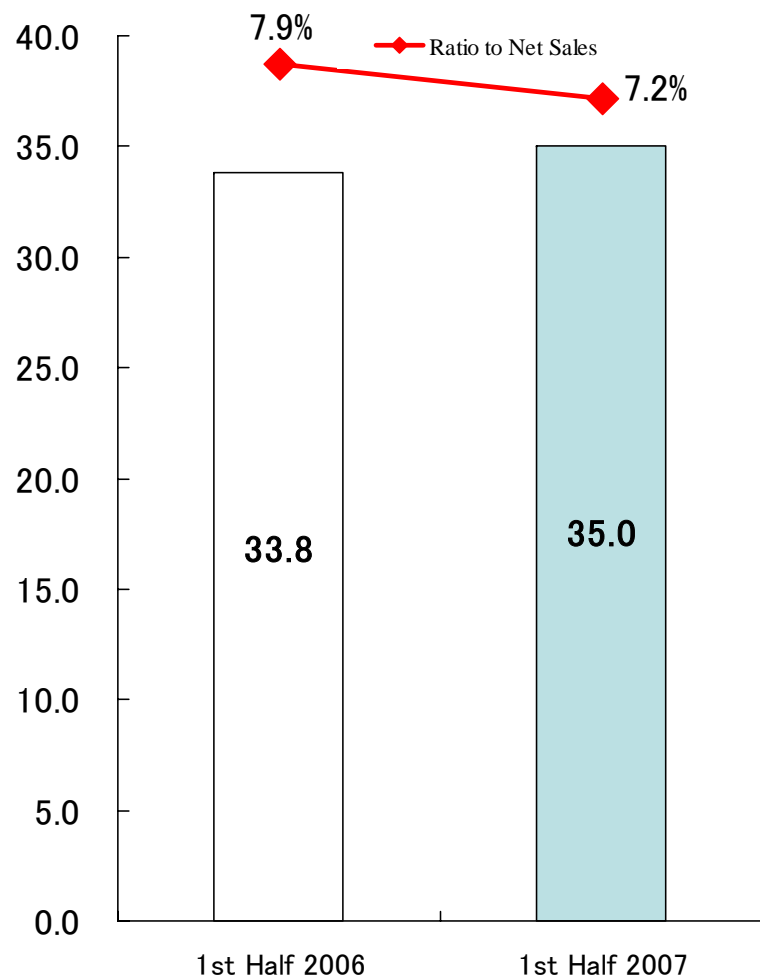
Operating Income Breakdown by Factor



(note) Price changes, net includes changes in both sales price and purchasing price

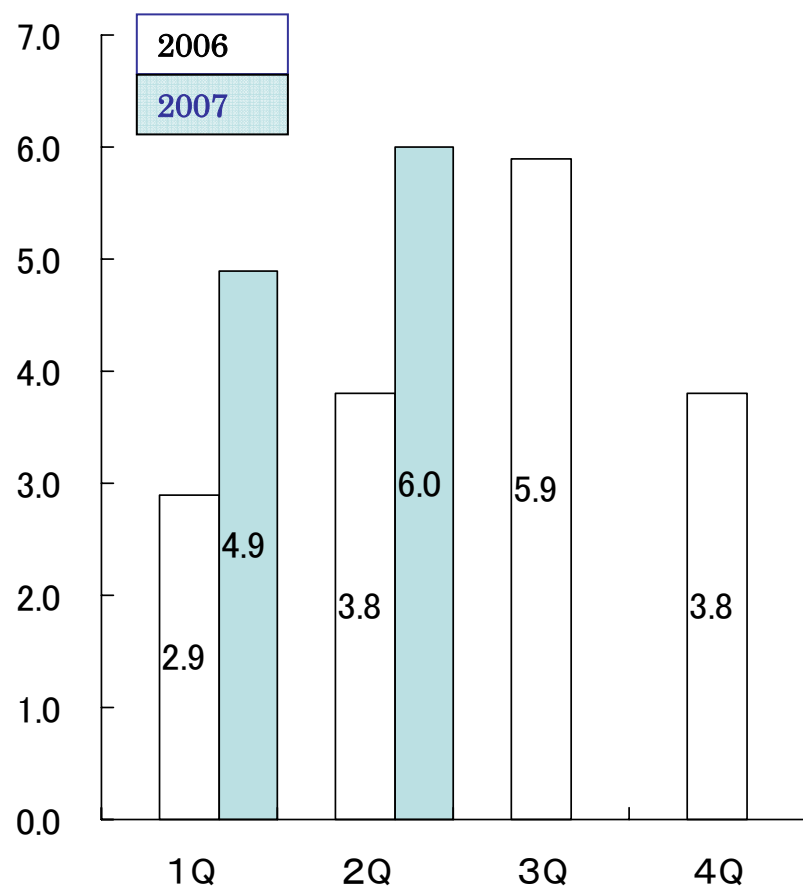
Operating Income, Quarterly

(Unit: Billions of Yen)

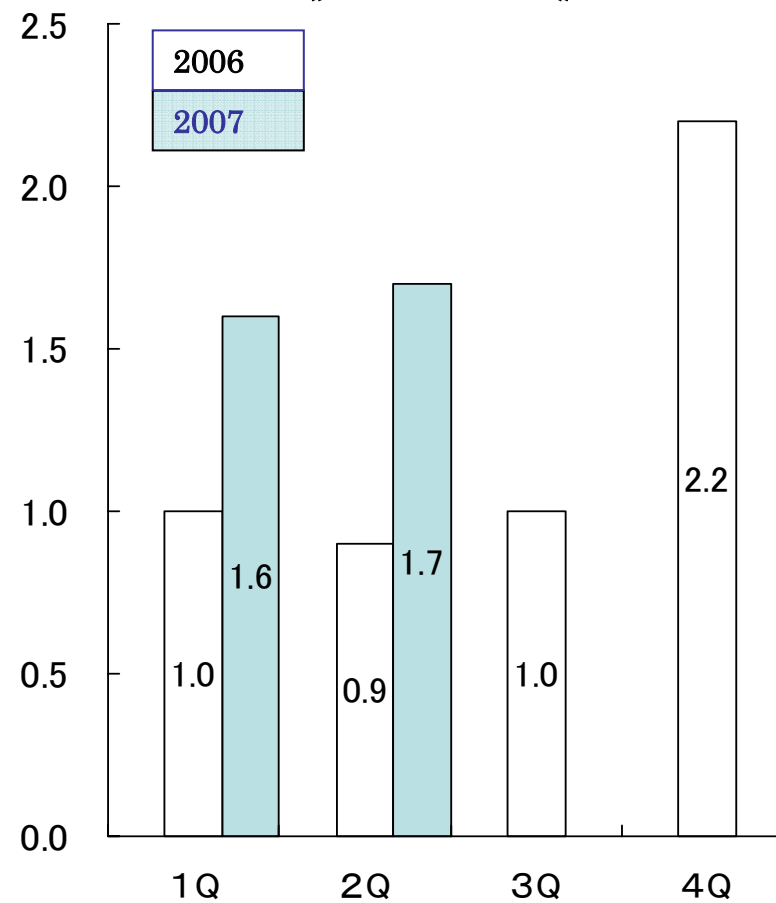


Operating Income by Segment (Quarterly)

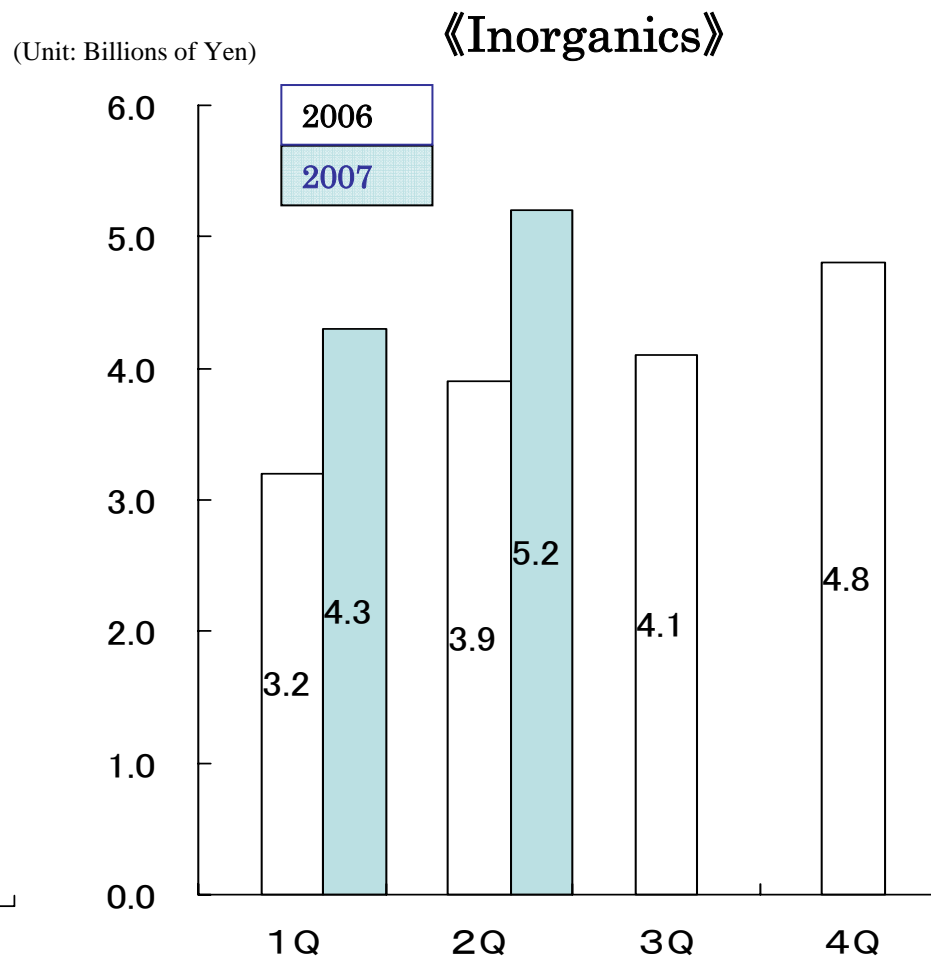
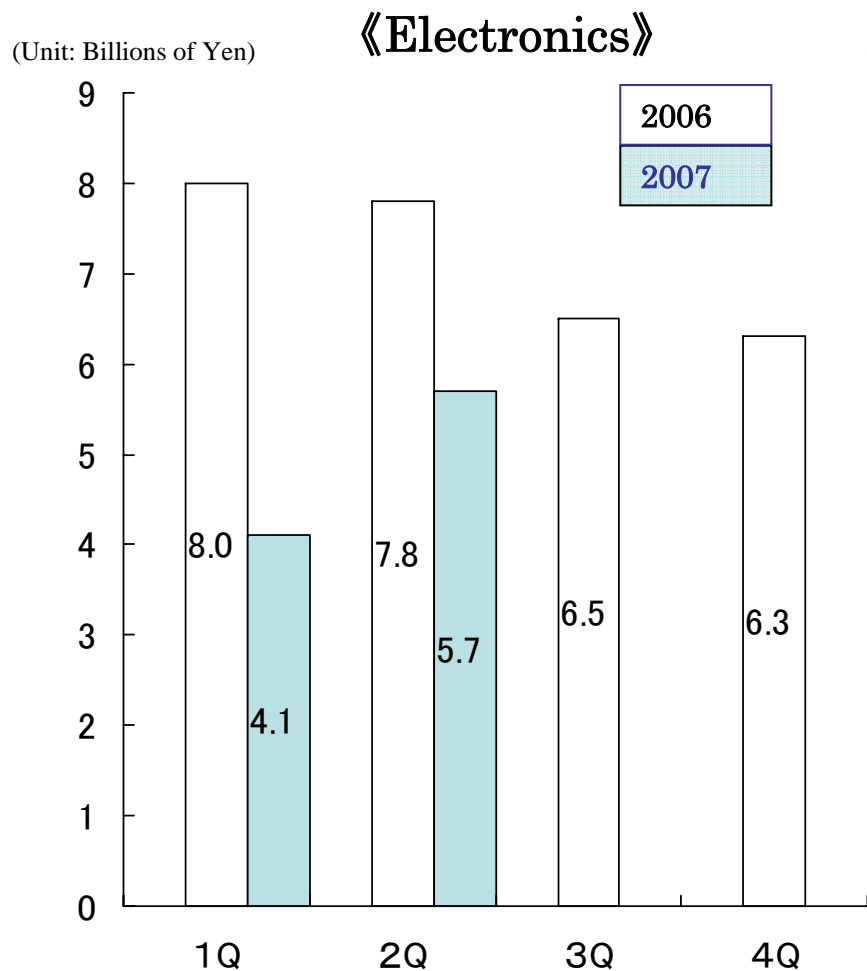
(Unit: Billions of Yen) **《Petrochemicals》**



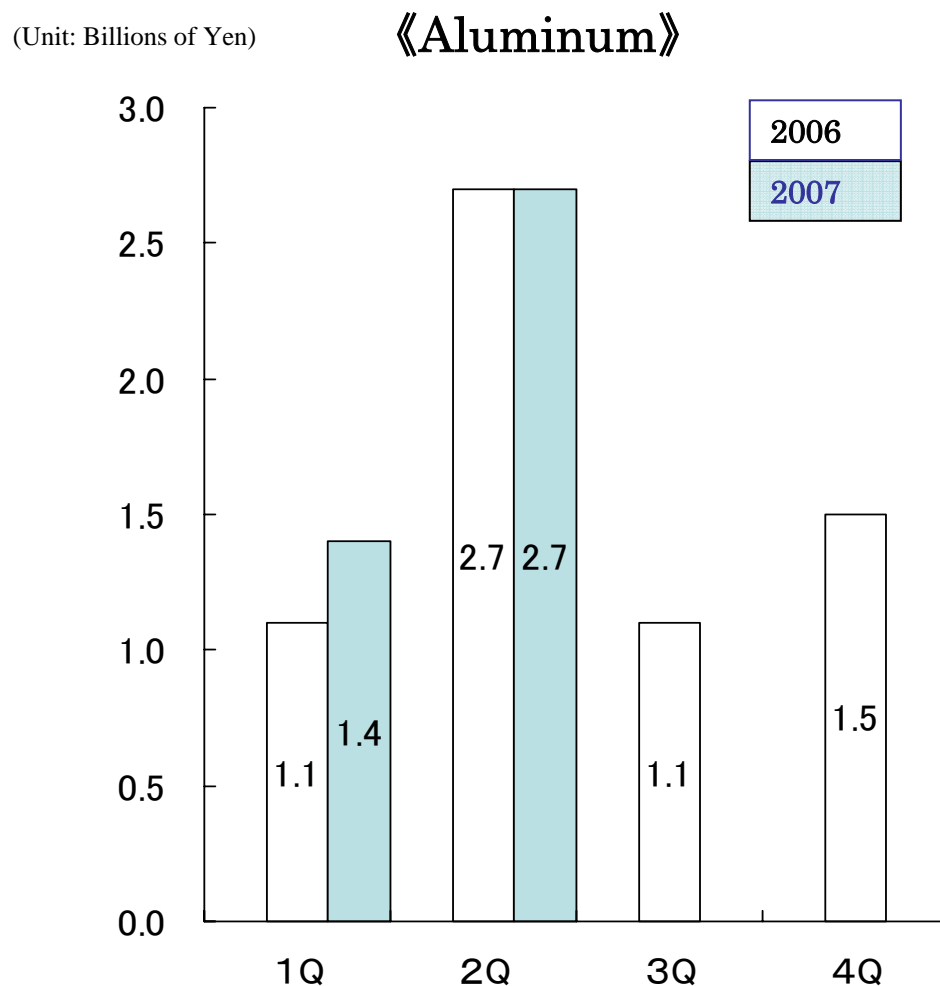
(Unit: Billions of Yen) **《Chemicals》**



Operating Income by Segment (Quarterly)



Operating Income by Segment (Quarterly)



Consolidated Balance Sheet

(Unit: Billions of Yen)

Assets	Dec. 31, 2006	Jun. 30, 2007	Increase	Liabilities and Stockholders' Equity	Dec. 31, 2006	Jun. 30, 2007	Increase
Cash and deposits	55.4	29.1	-26.3	Accounts payable	161.5	165.2	3.7
Accounts receivable	176.2	173.4	-2.8	Interest-bearing debt	433.2	426.3	-6.9
Inventories	86.3	111.7	25.4	Deferred tax liabilities due to land revaluation	46.9	46.8	-0.1
Deferred tax assets	3.2	3.0	-0.3	Accrued pension and severance costs	34.9	32.9	-2.0
Other current assets	27.3	27.3	0.1	Other liabilities	95.9	94.2	-1.7
<u>Current Assets</u>	<u>348.5</u>	<u>344.5</u>	<u>-4.0</u>	<u>Total Liabilities</u>	<u>772.3</u>	<u>765.4</u>	<u>-7.0</u>
Buildings and structures	93.4	104.9	11.5	Common stock	110.8	111.1	0.2
Machinery and equipment	137.4	157.5	20.1	Capital surplus	26.9	27.1	0.2
Land	263.9	261.9	-2.0	Retained earnings	47.3	57.8	10.5
Other tangible fixed assets	55.2	43.4	-11.8	Treasury stock	-0.2	-0.2	-0.0
<u>Tangible Fixed Assets</u>	<u>550.0</u>	<u>567.7</u>	<u>17.7</u>	<u>Total Stockholders' equity</u>	<u>184.9</u>	<u>195.8</u>	<u>10.9</u>
Intangible Fixed Assets	18.4	18.2	-0.2	Securities valuation surplus	19.3	22.8	3.5
Investments and other assets	121.0	118.1	-2.8	Foreign currency translation adjustment • Deferred hedge gains	7.2	8.7	1.5
Incl. Investment securities	97.0	99.6	2.6	Revaluation surplus –Land	24.0	23.9	-0.1
Deferred tax assets	7.6	3.7	-3.9	<u>Total valuations and adjustments</u>	<u>50.5</u>	<u>55.4</u>	<u>4.9</u>
				Minority Interest	30.1	31.9	1.8
<u>Total fixed assets</u>	<u>689.4</u>	<u>704.0</u>	<u>14.6</u>	Total equity	<u>265.5</u>	<u>283.1</u>	17.6
Total Assets	1,037.8	1,048.5	10.7	Total liabilities and equity	1,037.8	1,048.5	10.7

Total Assets

Interest-bearing Debt and D/E ratio

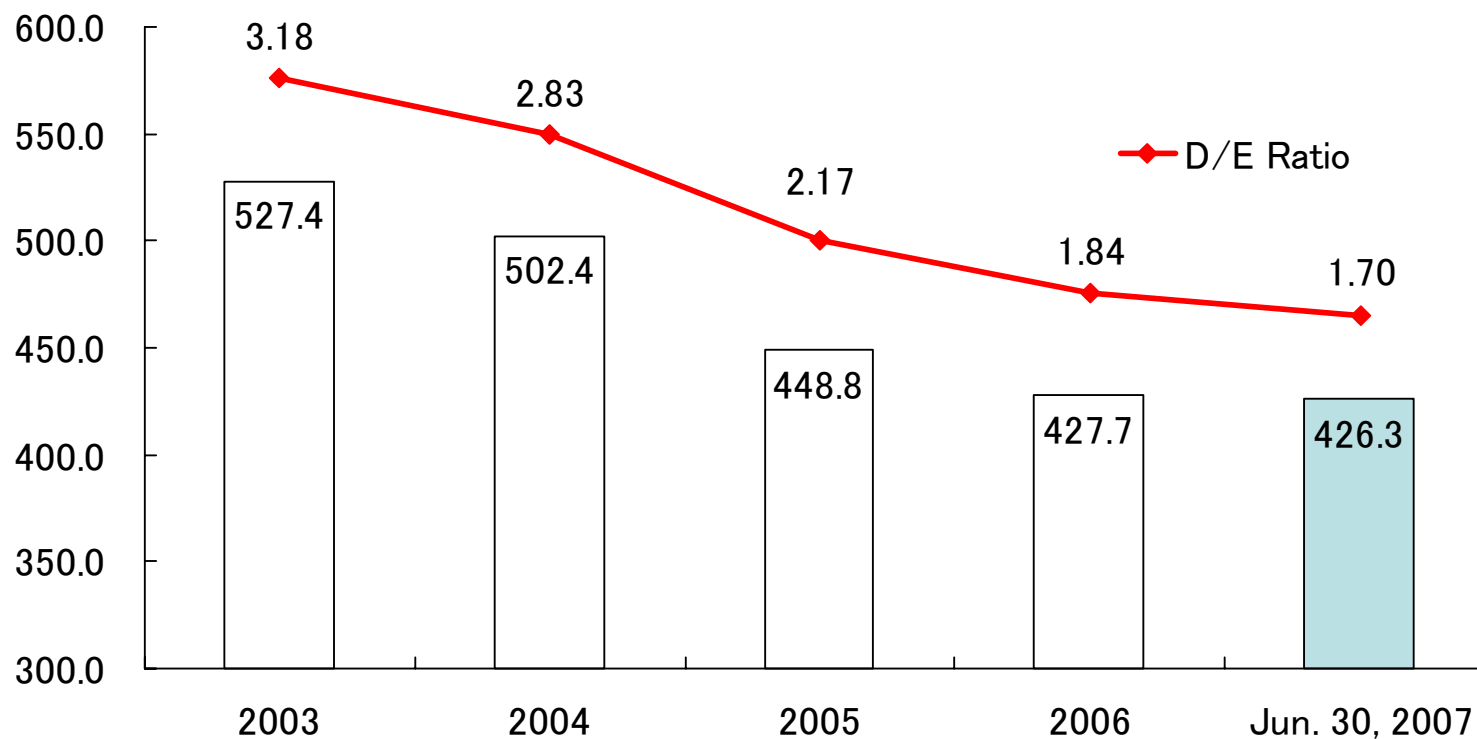
- **Total assets** **¥1,048.5 billion**
(Down ¥10.7 billion from Dec. 31, 2006)
- **Interest-bearing debt** **¥426.3 billion**
(Down ¥6.9 billion from Dec.31, 2006)
- **Debt/Equity ratio** **1.70 times**
(Improvement by 0.14 point from Dec. 31, 2006)
- **Stockholders' Equity ratio** **24.0%**
(Up 1.3 point from Dec. 31, 2006)

Note: In the calculation of debt/equity ratio, minority interest is deducted from total equity.

Interest-bearing Debt

2002 – Jun. 30, 2006

(Unit: Billions of Yen)



Equity ratio	17.7%	18.8%	21.0%	22.7%	24.0%
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Consolidated Cash Flow

(Unit: Billions of Yen)

	1 st Half 2006	1 st Half 2007	Increase
● CF from Operating Activities	32.2	20.1	-12.2
● CF from Investing Activities	-17.3	-32.5	-15.2
● Free CF	14.9	-12.5	-27.4
● CF from Financing Activities	-23.7	-14.1	9.6
● Other	0.1	0.6	0.5
● Increase, Decrease of cash and equivalent	-8.7	-26.0	-17.3

Selected Data (Consolidated)

(Unit: Billions of Yen)

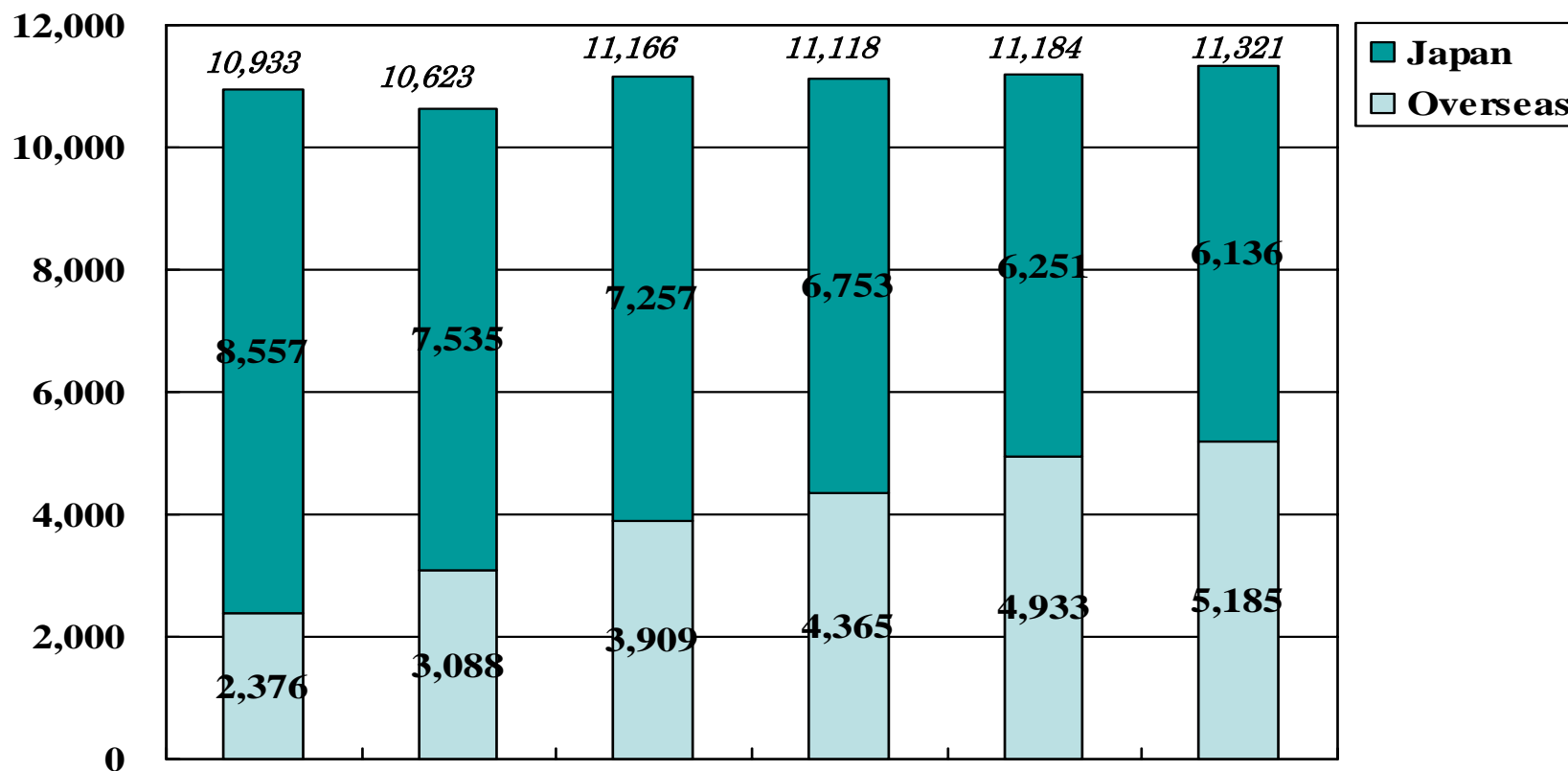
	1 st Half 2006	1 st Half 2007	Increase
● Interest/dividend income less interest expenses	-2.7	-3.1	-0.4
● Capital expenditures	40.1	42.8	+2.7
● Depreciation and amortization	18.4	22.4	+4.0
● R&D expenditures	9.0	9.4	+0.4
● Number of employees	11,381	11,321	-6.0
● Total employment cost	38.7	37.1	-1.6

Capital expenditures/ Depreciation by Segment

(Unit: Billions of Yen)

	1 st Half 2006		1 st Half 2007		Increase	
	Capital expenditures	Depreciation	Capital expenditures	Depreciation	Capital expenditures	Depreciation
Petrochemicals	6.8	2.7	3.1	2.9	-3.7	0.2
Chemicals	2.3	2.5	2.5	2.5	0.2	0.0
Electronics	24.4	7.2	30.3	11.5	5.9	+4.3
Inorganics	1.9	1.3	1.9	1.3	-0.0	-0.0
Aluminum	4.7	4.7	5.1	4.3	0.3	-0.5
Total	40.1	18.4	42.8	22.4	2.7	4.0

Total number of employees and breakdown by location



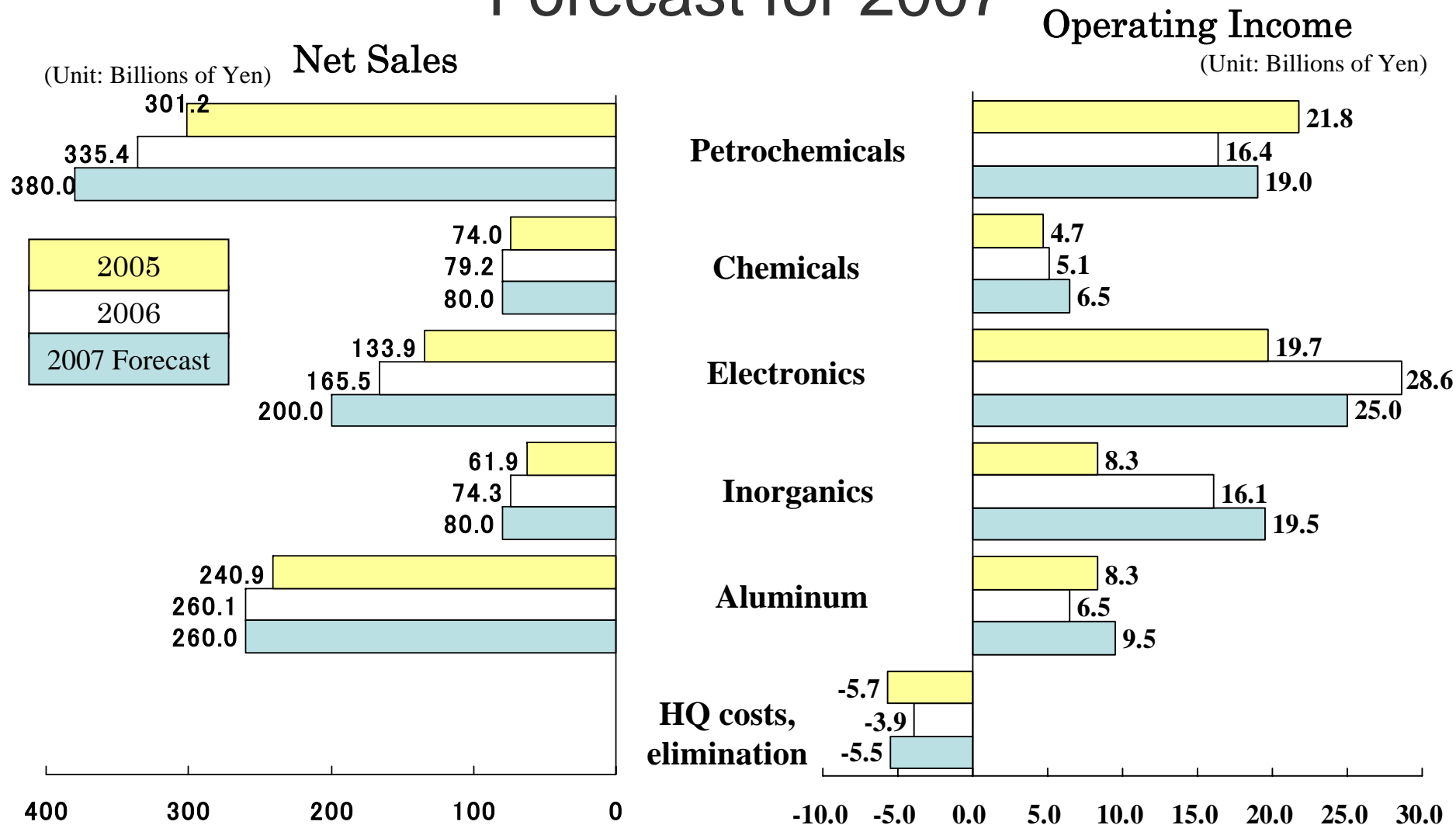
	2002	2003	2004	2005	2006	June 2007
Japan	78.3%	70.9%	65.0%	60.7%	55.9%	54.2%
Overseas	21.7%	29.1%	35.0%	39.3%	44.1%	45.8%

Forecast for 2007

(Unit: Billions of Yen)

	2007 Forecast announced on Feb8, 2007	2007 Forecast announced on Aug 7, 2007	Increase	2006
Net Sales	960.0	1,000.0	40.0	914.5
Operating Income	73.0	74.0	1.0	68.7
Interest/Dividend income less interest expenses	-8.1	-7.7	0.5	-5.7
Ordinary Income	60.5	60.5	0.0	57.5
Extraordinary Profit/Loss, net	-6.5	-5.0	1.5	-7.9
Net Income	31.5	33.0	1.5	28.8
Cash dividends per share	¥4.0	¥ 5.0	¥ 1.0	¥4.0

Sales and Operating Income Forecast for 2007



Net Sales by Segment Forecast for 2007

(Unit: Billions of Yen)

	2007 Forecast announced on Feb 8, 2007	2007 Forecast announced on Aug 7, 2007	Increase	2006
Petrochemicals	340.0	380.0	40.0	335.4
Chemicals	80.0	80.0	0.0	79.2
Electronics	210.0	200.0	-10.0	165.5
Inorganics	80.0	80.0	0.0	74.3
Aluminum	250.0	260.0	10.0	260.1
Total	960.0	1,000.0	40.0	914.5

Operating Income by Segment Forecast for 2007

(Unit: Billions of Yen)

	2007 Forecast announced on Feb 8, 2007	2007 Forecast announced on Aug 7, 2007	Increase	2006
Petrochemicals	17.0	19.0	2.0	16.4
Chemicals	6.0	6.5	0.5	5.1
Electronics	30.0	25.0	-5.0	28.6
Inorganics	17.0	19.5	2.5	16.1
Aluminum	9.0	9.5	0.5	6.5
HQ cost, elimination	-6.0	-5.5	0.5	-3.9
Total	73.0	74.0	1.0	68.7

Selected Data, Forecast

	1 st Half 2007	2 nd Half 2007 forecast	Increase
● Exchange rate: ¥/US\$	120	115	Yen rose by ¥5/\$
● Domestic naphtha price: ¥/kl	53,300	56,000	2,700
● Aluminum LME price: US\$/T	2,773	2,650	-123

(Unit: Billions of Yen)

	2006	2007 Forecast	Increase
● Interest-bearing debt	433.2	410.0	-23.3
● Interest/dividend income less interest expenses	-5.7	-7.7	-2.0
● R&D expenditures	19.5	18.0	-1.5
● Number of employees	11,184	11,356	+172
● Total employment cost	77.0	75.0	-2.0

Capital expenditures/ Depreciation by Segment Forecast for 2007

(Unit: Billions of Yen)

	2006		2007 Forecast		Increase	
	Capital expenditures	Depreciation	Capital expenditures	Depreciation	Capital expenditures	Depreciation
Petrochemicals	9.3	5.4	6.4	5.7	-2.9	+0.3
Chemicals	5.6	4.9	6.0	5.3	+0.4	+0.4
Electronics	62.9	16.1	46.8	28.8	-16.1	+12.6
Inorganics	3.9	2.6	5.2	2.8	+1.3	+0.2
Aluminum	9.1	9.0	15.9	9.4	+6.8	+0.4
Total	90.8	38.0	80.3	52.0	-10.5	+13.9

Topics

■ Chemicals

● Development of new photo-curing isocyanate monomer

- ◆ SDK developed a new grade of photo-curing isocyanate monomer product (*KarenzMOI™-EG*) and started sample shipments in July. Compared with the existing *KarenzMOI™* product, which is used mainly for the production of LCD displays and semiconductors, the new grade features high adhesion strength and curing rate while reducing cure shrinkage by 40%. As a result, *KarenzMOI™-EG* is expected to find such new applications as surface coating and adhesives.

● Launch of water-soluble vitamin E derivative for skin care

- ◆ SDK began full-scale marketing of a new water-soluble vitamin E derivative (*TPNa™*) for use in cosmetics. *TPNa™* is readily soluble in aqueous solutions, enabling easy formulation in cosmetics. It is readily absorbed through the skin, and transformed quickly into vitamin E in the skin. Thus, *TPNa™* is expected to be effective as raw material for skin care product.

Topics

■ Electronics

● Commercial production of 3.5-inch HD media

- ◆ In June, SDK began commercial shipments of 334 gigabyte, 3.5-inch HD media based on the perpendicular magnetic recording (PMR) technology. As of June 2007, the product represented the world's largest storage capacity as a 3.5-inch HD media. Demand for large-capacity HD media is growing due to the rise in shipment volumes of HDD recorders that enable high-vision recording of digital high-vision TV programs as well as PCs that enable storage and editing of moving pictures. In January, we started up a PMR-technology-based new plant in Singapore, ensuring stable supply of high-storage-capacity HD media to our customers.

● Developing high-performance, large area-emission organic EL panels

- ◆ The Company is developing singlelayer organic electroluminescent (organic EL) devices based on innovative phosphorescent polymer materials. For the green and red light, we have achieved the highest-level external quantum efficiency. Durability for the green light has already reached 350,000 hours. We are developing a large area-emission panel based on this polymer technology, aiming to commercialize high-performance organic EL panels for use in displays and general lighting.

Topics

■ Electronics

- **New crystal growth technology for nitride-based semiconductors**
 - ◆ SDK has succeeded in developing a new process for making high-quality nitride-based compound semiconductors to meet growing demand for use in blue/white LEDs. The process, called “*Hybrid PPD*™,” enables the use of four-inch epitaxial wafers with high quality. We have also succeeded in developing blue LEDs with the highest-level brightness on the market today. While blue LEDs are currently used mainly in automotive parts and traffic signals, demand is expected to increase at the annual rate of nearly 20% in the coming five years, due to the development of new applications, including LCD backlighting. In view of substantial increases in orders, we decided to expand our LED chip production capacity at Chiba site from the originally planned level of 100 million units per month to 200 million per month by the end of June 2008.

- **Specialty gas storage facility in South Korea**
 - ◆ In June, the Company’s specialty gas storage facility was completed in Anseong-si, Gyeonggi-do, South Korea. The facility is intended as a measure to better serve the rapidly growing semiconductor and LCD panel market in that country. With the completion of the facility, we will provide specialty gases to our customers in South Korea in a more timely and reliable manner.

Topics

■ Inorganics

● Capacity expansion for 30"- and 32"-diameter graphite electrodes

- ◆ Last year, SDK began strengthening its production setup of 30-inch- and 32-inch-diameter graphite electrodes for use in electric arc furnace steelmaking. As a result, a new line of graphitizing furnace will be completed at the Omachi Plant, Japan, in July and expanded facilities will start up at Showa Denko Carbon, Inc., in the U.S., in the second half of this year. Upon completion, our total production capacity of these large-diameter graphite electrodes will increase from 15,000 tons per year to 25,000 tons per year. Total investments in the capacity expansion will be approximately ¥1 billion.

● Establishment of JV for F/S regarding alumina project in Indonesia

- ◆ In April, the Company established P.T. Indonesia Chemical Alumina, a joint venture with PT. ANTAM Tbk of Indonesia, Straits Trading Amalgamated Resources Private Limited of Singapore, and Marubeni Corporation of Japan. The JV was established to jointly study the feasibility of a chemical-grade alumina project in Indonesia.

Topics

■ Aluminum and other

- **Expanding automotive heat exchanger business in China**
 - ◆ We increased our equity participation in Grand Ocean-Showa Auto Air Conditioning (Dalian) Co., Ltd., making it our consolidated subsidiary. Grand Ocean-Showa will expand its production capacity and start producing new *NRT*TM *III* condensers with around 20% higher performance compared with existing products.

- **Absorption of Showa Financing K.K.**
 - ◆ In July, the Company absorbed its wholly owned subsidiary Showa Financing K.K. By taking over Showa Financing's operations, we will enhance the efficiency of financing activities within our Group.

- **Launch of world's first aluminum cups for chilled coffee**
 - ◆ Our subsidiary Showa Denko Packaging Co., Ltd. began marketing aluminum cups for beverages, mainly for chilled coffee. This represents the industry's first aluminum cups for chilled coffee, providing high shielding effectiveness and ensuring preservation of natural flavor and taste. The main bodies of the cups can be recycled as aluminum metal.